



SIFM Winter Conference: Insurance Acquisitions and Divestitures

Market Trends, Technical Challenges
and Financial Reporting Implications

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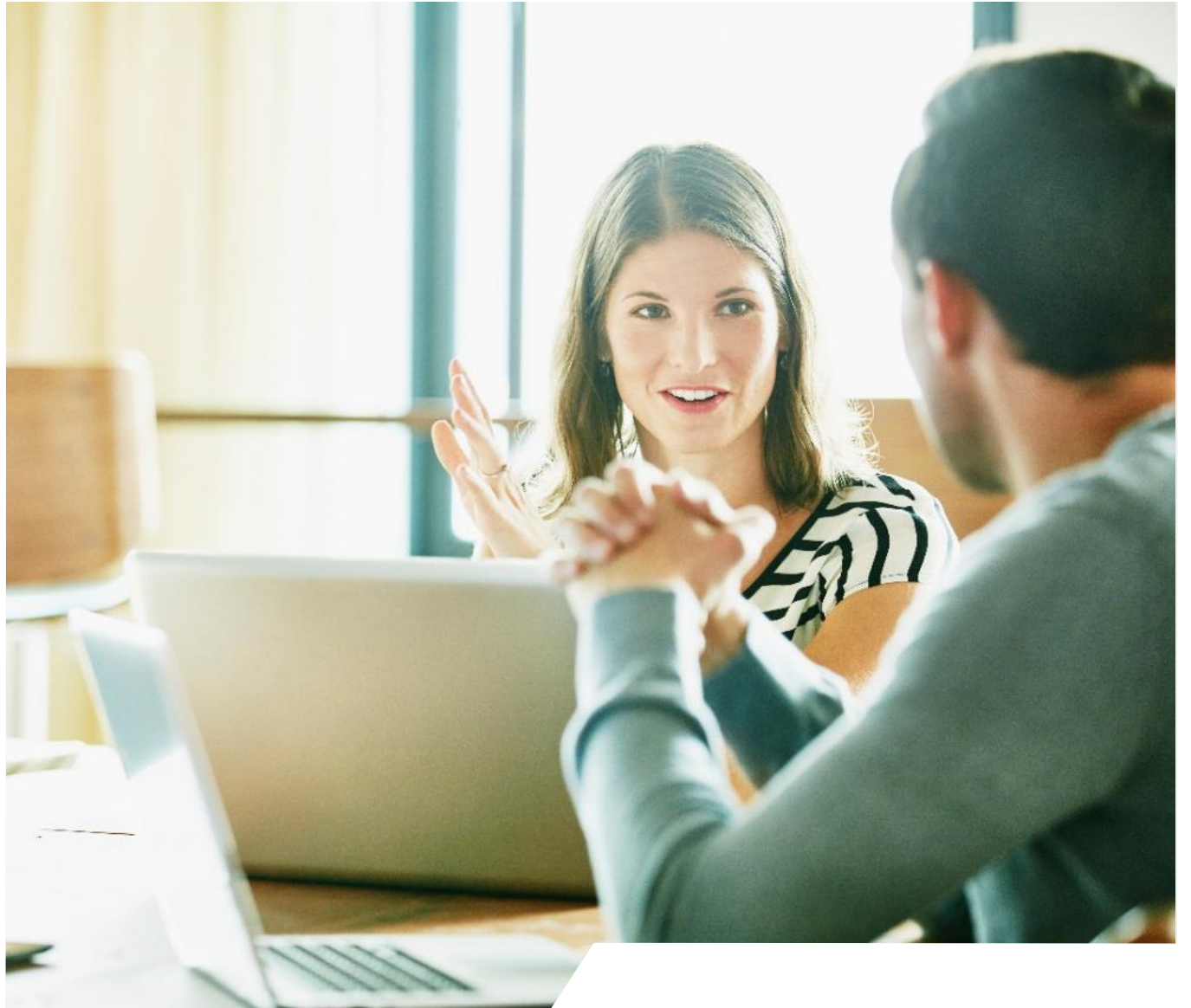
New York

Agenda

- 1 Insurance Acquisition & Divestiture Market Update
- 2 Basis of presentation
- 3 Common technical challenges & focus areas for insurance acquisitions & divestitures
- 4 Non-GAAP Adjustments

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Insurance Acquisition & Divestiture Market Update

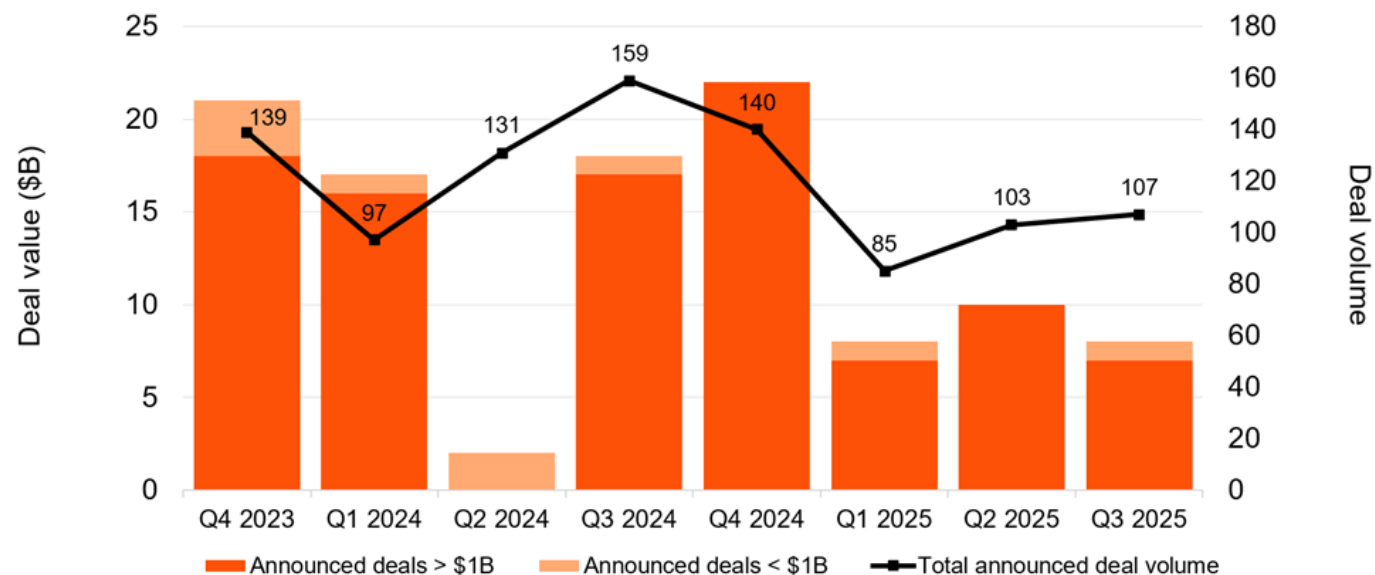


Insurance Deals Trends: 2025



Insurance deals volume slowed in the twelve months ended September 2025, while the number of mega deals increased as compared to prior periods

US insurance M&A deal value and volume



Represents financial information from October 1, 2023, to September 30, 2025

Source: PwC analysis of data from S&P Capital IQ Copyright © 2025, S&P Global Market Intelligence (and its affiliates, as applicable). The deals included within the chart represent US and Bermuda-based insurance targets. In addition, the deal value and volume does not include reinsurance transactions. Note due to changes in the source data of deal activity, prior periods of published insurance deals reports may have changed.

U.S. Insurance Market Deal Trends

Spike in megadeals:

- Announced deal value (~\$48b in LTM Sep-25) was carried by 10 mega deals (\$46b), which accentuated an increased trend of significant enterprise value transactions.
- Deal volume decreased compared to the same period in 2024 due to a slow down in insurance brokerage deals driven by uncertainty surrounding the US economy and elevated interest rates.

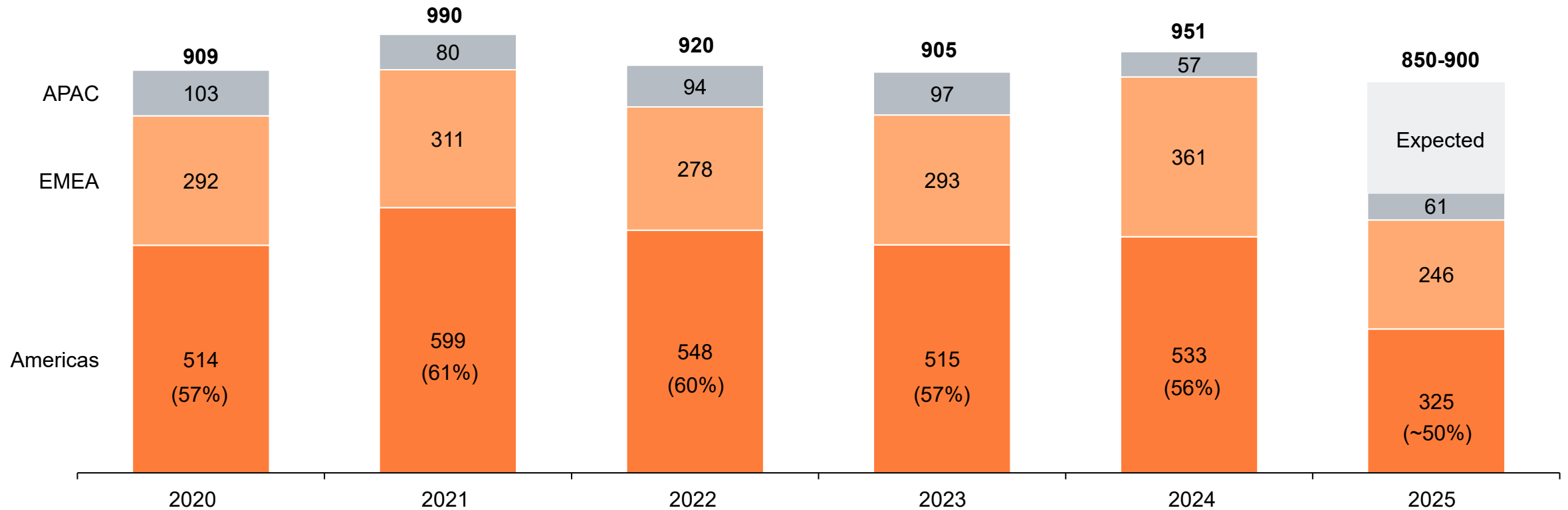
Insurance distribution megadeals:

- Deal value was driven by significant insurance distribution deals, including Gallagher's acquisition of Assured Partners (\$13.5b), Brown & Brown's acquisition of Accession Risk Management (\$9.8b) and Marsh's acquisition of McGriff (\$7.8b).
- These megadeals are illustrating that top insurance distributors are seeking transformative M&A transactions to fuel growth

Global Insurance deal activity

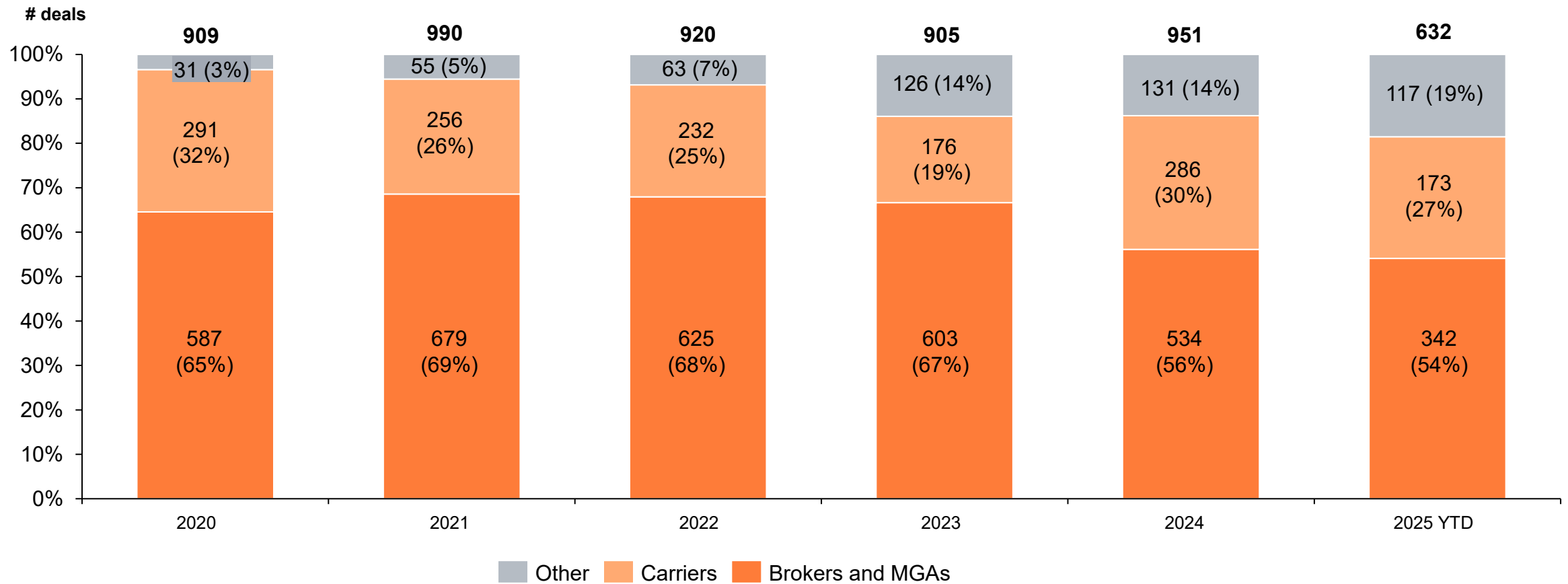
After five years of ~900 - 950 annual deals, global insurance M&A is projected to ease in 2025 as the Americas' share declines from ~56-61% in recent years to roughly 50%.

Global insurance deals – by region



Insurance M&A is becoming less broker-centric as interest grows in carriers and other platforms

Global insurance deals – by type of insurance target



Recent acquisitions (whole company)

	Buyer	Target	Seller	Target description	Transaction Price	Close Date
1	Aquarian Capital	Brighthouse Financial, Inc. (Nasdaq: BHF)	Brighthouse shareholders	U.S. provider of annuities and life-insurance products, offering retirement, and protection solutions	\$4.1 B	Announced 2025, expected to close 2026
2	The Doctors Company	ProAssurance Corporation	ProAssurance shareholders	Specialty insurer of medical professional liability, products liability, and worker's comp	\$1.3 B	Announced 2025, expected to close first half of 2026
3	Radian (NYSE: RDN)	Inigo Insurance	J.C. Flowers & Co., La Caisse, Oak Hill Advisors, and QIA	Lloyd's P&C business primarily focused on writing US exposure	\$1.7 B	Announced 2025, expected to close Q1 2026
4	Skyward Specialty (NYSE: SKWD)	Apollo Group Holdings Limited	Alchemy (partial owner)	UK Based Lloyd' business, focused on specialty P&C insurance	\$555 million	Announced 2025, expected to close Q1 2026
5	Protective Life Corp	Portfolio Holding, Inc.	Abry Partners	Asset protection products, primarily vehicle extended service contracts	ND	Announced 2025, expected to close by the end of 2025 or Q1 2026
6	Arthur J. Gallagher & Co. (NYSE: AJD)	AssuredPartners.	GTCR	U.S. insurance broker with commercial property/casualty, specialty, employee benefits and personal lines capabilities	\$13.5B	August 18, 2025
7	Brown & Brown, Inc. (NYSE: BRO)	Accession Risk Management Group	Kelso & Company	A family of specialty insurance and risk management companies	\$9.8 B	August 1, 2025
8	Ageas (AGS.BR)	Esure Group (UK personal-lines insurer)	Bain Capital	UK motor & home insurance	\$1.7 B	September 30, 2025
9	JAB	Prosperity Life Group	Elliott Management	Life & annuity products and asset management platform	~\$3.1 B	September 5, 2025
10	Munich Re / Ergo	NEXT Insurance	Allianz, Alphabet, American Express	Insure-tech small business P&C and MGA	\$2.6 B	July 1, 2025
11	Arthur J. Gallagher & Co. (NYSE: AJD)	Woodruff Sawyer	N/A	Insurance broker that provides specialty commercial property/casualty products	\$1.2B	April 10, 2025

Recent divestitures of a carved-out business

	Seller	Buyer	Divested Business	Transaction Price	Close Date
1	Legal & General Group (LON: LGEN)	Meiji Yasuda	US term life business (Banner Life) and US PRT business (William Penn)	\$2.3 billion	Announced 2025, expected to close late 2025
2	Ambac Financial (NYSE: AMBC)	Oaktree	Legacy guaranty business	\$420 million	September 29, 2025
3	Corebridge (NYSE: CRBG)	Venerable	Full exit of indiv. retirement VA in-force book (\$5B GA, \$46B SA) via reins. + sale of inv adviser SunAmerica Asset Management, LLC	\$2.8 billion	August 4, 2025
4	Allstate (NYSE: ALL)	Nationwide	Employer stop loss segment for small businesses	\$1.25 billion	July 1, 2025
5	Allstate (NYSE: ALL)	The Standard	Employer voluntary benefits business	\$2 billion	April 1, 2025
6	Protective (sub of Dai-ichi Life Holdings)	Cetera Financial Group	Concourse Financial Group Securities (RIA and broker-dealer business)	ND	February 20, 2025
7	OneAmerica Financial	Voya Financial (NYSE: VOYA)	Full-service retirement plan business	ND	January 2, 2025
8	American Family Insurance	Sentry Insurance	The General, a non-standard auto insurer	\$1.7 billion	January 1, 2025
9	AIG (NYSE: AIG)	Zurich Insurance Group	Global individual personal travel insurance and assistance business	\$600 million	December 2, 2024
10	Protective (sub of Dai-ichi Life Holdings)	Simplicity Group	Concourse Financial Group Agency (MGA business)	ND	November 1, 2024
11	Everest Group (NYSE: EG)	Ryan Specialty (NYSE: RYAN)	An MGU serving customers in the Sports, Leisure, and Entertainment market	ND	October 1, 2024
12	Ascot Group	Ryan Specialty (NYSE: RYAN)	P&C MGUs owned by Ethos Specialty Insurance	ND	September 16, 2024
13	Penn Mutual Life Insurance Company	KKR (NYSE: KKR)	Janney Montgomery Scott (full-service AWM & investment banking business)	ND	2024

Recent block reinsurance transactions

	Cedant	Reinsurer	Reinsured Business	Ceded Reserves	Close Date
1	MetLife (NYSE: MET)	Talcott Resolution Life (sub of Talcott Financial Group)	U.S. retail variable annuity and rider reserves	\$10B	Announced April 2025, not yet closed
2	Sony Life Insurance Co. Ltd. (Japan)	Athene Holding Ltd.	Whole life insurance policies	\$2.1B	October 1, 2025
3	Equitable Holdings (NYSE: EQH)	Reinsurance Group of America (NYSE: RGA)	Diversified block of in-force individual life insurance products incl GA and SA reserves	\$18B – GA Reserves \$14B – SA Reserves	July 31, 2025
4	Protective (sub of Dai-ichi Life Holdings)	Resolution Life	Structured settlement annuities and secondary guarantee universal life policies currently in runoff	\$9.7B	April 8 and July 1, 2025
5	Unum (NYSE: UNM)	Fortitude Re	Individual long term care and multi-life individual disability	\$3.52B	July 1, 2025
6	Anshin Life (a Japanese life insurance subsidiary of Tokio Marine Holdings)	Resolution Life	In-force portfolio of premium-paying and paid-up whole life policies	ND	May 21, 2025
7	AXIS Capital Holdings Limited	Cavello Bay Reinsurance Ltd. (sub of Enstar)	75% QS LPT predominantly attributable to casualty portfolios related to 2021 and prior UW years	\$2.3B	April 24, 2025
8	Japan Post Insurance (Kampo)	Talcott Life Re (sub of Talcott Financial Group)	Payout annuities	\$3.6B	March 31, 2025
9	Taiyo Life (sub of T&D Holdings)	Fortitude Re	Whole life annuity	\$4B	February 28, 2025
10	Manulife (NYSE: MFC) / John Hancock	Reinsurance Group of America (NYSE: RGA)	LTC blocks (\$1.9B) and structured settlements (\$2.2B)	\$4.1B	January 2, 2025
11	Prudential Financial (NYSE: PRU)	Wilton Re	Guaranteed universal life block (indemnity coinsurance)	\$11B	December 19, 2024
12	Prudential Financial (NYSE:PRU)	Somerset Re	Guaranteed universal life block (modified coinsurance)	\$12.5B	March 28, 2024

Driving forces of insurance divestitures

Insurance executives and corp dev teams are focused on **portfolio optimization**: identifying **underperforming** or **capital-intensive** businesses and partnering with **asset managers** and **reinsurers** to share risk and economics, as well as **shedding non-core businesses / assets** to raise capital to **reinvest** in other parts of the business

Insurance divestiture drivers...

- 1 Shift to be capital-light
- 2 Remove earnings headwinds and obtain statutory capital relief
- 3 Unwanted concentration of risk in unfavorable products or geographic markets
- 4 Demand from asset managers for established insurance platforms
- 5 High multiples on brokerages, MGAs and MGUs
- 6 High demand from Japanese buyers making rich offers to US sellers

...and what they mean for sellers.

- Exit long-term insurance liabilities and pivot to stable, fee-based earnings such as asset management fees, recordkeeping fees, per user / per month fees
- Exit slow growth, volatile earnings businesses to create capacity for reinvestment; Improved RBC and potential uplift on stat distributable earnings
- Opportunity to stem losses from prior underwriting missteps, environmental/climate exposures
- Rich offers from asset managers looking for already licensed insurance co's with established distribution networks; comes with other strategic asset management partnership opportunities
- Highly fragmented broker/MGA/MGU space means strong appetite for consolidation and willingness to pay up
- Shifting population demographics and lower domestic capital requirements in Japan have led to selling opportunities for owners of higher yielding US assets

Representative divestitures

- Allianz's sale of U.S. MidCorp & Entertainment commercial lines to Arch allowed Allianz to refocus and free up capital
- Corebridge's sale of individual retirement VA book and related investment advisor to Venerable
- Liberty Mutual's sale of selected South American operations to HDI (Talanx)
- Elliott's sale of Prosperity to JAB; Allstate's sale of Life & Retirement business ("Everlake") to Blackstone; AIG's sale of Fortitude Re to Carlyle and T&D Holdings
- Ambac's sale of Its Legacy Financial Guarantee Businesses to Oaktree
- Legal & General's sale of US term life business (Banner Life) and US PRT business (William Penn) to Meiji Yasuda

Driving forces of insurance acquisitions

Insurance acquisition drivers...

- 1 Expansion of product offerings via acquisition
- 2 Non-insurance companies' entry into the insurance market
- 3 Market expansion / geographic presence
- 4 Operational leverage and capital efficiency
- 5 Economies of Scale
- 6 Access to expanded long-term capital and investment float

...and what they mean for buyers.

- Enables buyer that has existing insurance platform to gain immediate access to new product types rather than building from scratch.
- Buyer enters the insurance industry via acquisition, giving access to new business model and capital structure
- Acquiring an insurer provides access to a licensed entity in regulated jurisdictions, as well as an existing customer base and distribution channels.
- Acquire portfolios with more favorable risk/return profiles to improve overall solvency and capital allocation
- Brokers are seeking scale by adding new distribution networks to enable greater breadth and depth for placement opportunities
- Insurers provide steady, recurring premium income and investment float, which offers buyers a source of low-cost, long-duration capital to fund other investments and stabilize earnings volatility.

Representative acquisitions

- Brookfield Reinsurance acquisition of AEL gave Brookfield immediate access to fixed annuity products.
- JAB's acquired Prosperity to establish a new life-insurance platform. Historically, JAB was a consumer brands investor.
- Meiji Yasuda's acquisition of Legal & General's US protection business provides Meiji Yasuda with entry into the US life insurance market.
- Aquarian's acquisition of Brighthouse provides access to an annuity and life platform, enabling capital efficient asset deployment and improved portfolio performance.
- Brown & Brown's acquisition of Accession Risk Management
- KKR's acquisition of Global Atlantic

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Basis of presentation



Should we account for this as reinsurance, a business combination or an asset acquisition?

Reinsurance Accounting

- Assess indemnity or assumption / novation reinsurance
- Assess risk transfer (reinsurance treatment vs investment contracts / deposit method)
- No goodwill recognition
- Apply ASC 944

Short Duration

- Record unpaid claim liability using own assumptions & estimates
- Difference between liability and FV of consideration received is deferred charge asset or deferred gain liability amortized over loss settlement period
- Deferred charge asset subject to recoverability test

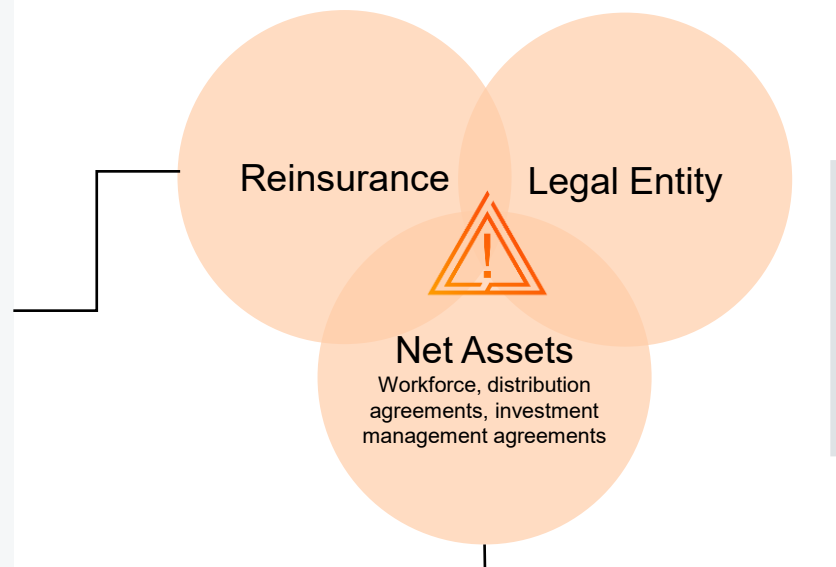
Long Duration

- Assuming entity subject to the guidance applicable to direct writers
- Gross premium received in excess of the net premium would be deferred.
- If net consideration is less than policy benefit reserves, difference could be accounted for as DAC if it represents payment for the ceding entity's deferred acquisition costs

First, assess the legal form of the purchase / subject asset.



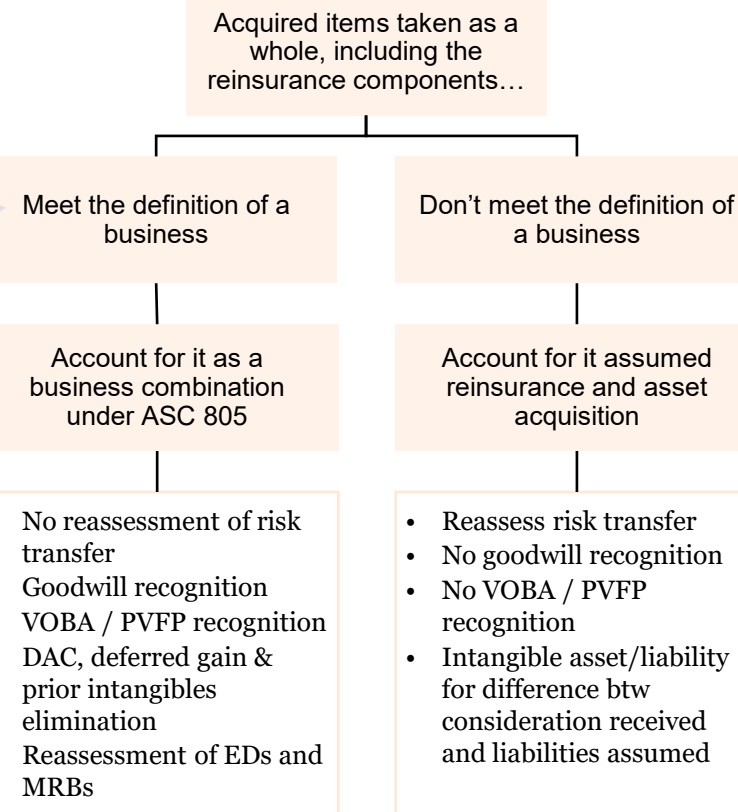
When legal form reinsurance overlaps with the purchase of a legal entity and/or net assets, apply the screen test and assess for a business combination.



Transferred items include rights and obligations of the in-force block, workforce, policy admin function or distribution systems

Asset Acquisition

- No goodwill recognition
- Assembled workforce may be separately recognized
- Assets & liabilities measured at cost, including direct transaction costs
- Less disclosure
- Apply ASC 805-50



Insurance divestitures can take many forms

Discops / Held for Sale Considerations



Disposal via Sale (legal entity or net assets)

- Discops should be presented once the HfS criteria are met and it represents a strategic shift that will have a major effect on an entity's operations and financial results.
- This generally occurs sooner than the closing of the sale.
- No HfS in period sold - you don't own those assets anymore.

Gain / Loss Considerations

- Loss recognized to write down HfS business to lower of carrying value or FV less cost to sell. Gain recognized for reversal but no more than originally recognized loss.
- Ultimate gain or loss on disposal is recognized at closing.
- G/L recognized on reinsurance recaptures / terminations executed to get disposal entity ready for sale.



Disposal via Reinsurance

- Reinsured business won't meet HfS criteria unless novation occurs.
- B/S presentation is consistent with normal reinsurance or deposit accounting presentation, depending on risk transfer.
- I/S results remain in continuing ops.

- Recognize G/L on investments that pass sale criteria under ASC 860.
- **Funds withheld / Modco:** investments retained by cedant but may have MtM through earnings on embedded derivative.
- **IMR for Stat L&A:** Investments transferred in a coinsurance transaction create transactional IMR that transfers to reinsurer.
- **Assumption/Novation Reinsurance:** G/L recognized on legal replacement of cedant.



Disposal via component Reinsurance + Sale

- Account for sale & reinsurance component separately.
- Legal entity / net assets presented in Discops once HfS criteria are met.
- Reinsured business remains in continuing ops.
- Non-GAAP measures used to adjust for income statement results of the business disposed of via reinsurance.

- Recognize G/L for sale and reinsurance components according to the rules prescribed to each, as noted above.



Disposal via Spin-off

- Spinoff transaction should be assessed to determine if it represents a strategic shift that has a major effect, and therefore requires discontinued operations presentation for the spinnor.
- Assets that are disposed of through a spinoff are required to remain classified as held and used until the spinoff has occurred.

- A transfer of assets that constitute a business to owners in a spinoff is accounted for based on the recorded amount of the assets transferred (after reduction, if appropriate, for any impairment) within equity, resulting in no gain or loss recognized.
- Impairment loss is recognized when the asset group is spun off if the carrying amount of the disposal group exceeds its fair value.

Discontinued operations overview



Discontinued Operations Reporting Objectives:

The objective of reporting discontinued operations in financial statements is to provide users with information about the portion of a reporting entity's operations that will not continue and to provide historical financial results comparable with a company's continuing operations.



Reporting discontinued operations indicates that a disposal represents a shift in strategy that will have a major effect on an entity's operations and financial results.



Disposals that do not represent a change in strategy, are routine in nature, or are not significant and will not have a major effect on operations and financial results should not be reported as discontinued operations.



Disposals that are not reported as discontinued operations should be evaluated for held for sale accounting and reporting

Discontinued operations criteria



A disposal transaction will qualify as a discontinued operation if the following **three criteria** are met:

1

Once the disposal group is identified, if the disposal group meets the definition of a component (or group of components)

2

If the component has been disposed of or meets the held for sale criteria

3

If the disposal represents a strategic shift that has a major effect

**Present
Discontinued
Operations
disclosures if
criteria are met**

Criteria 2: Are the held for sale criteria met?

All of the following criteria must be met in order to achieve held for sale accounting:

Criteria for disposal group to be classified as held for sale (ASC 360-10-45-9)

Key considerations of satisfying/not satisfying criteria and examples

Management committed to a plan to sell

The plan should identify all major classes of assets to be disposed of, significant actions to be taken to complete the plan and the expected date of completion. Management's performing a feasibility study likely does not constitute a commitment⁽¹⁾.

Example: Obtaining board of director, shareholder, or regulatory approval

Available for immediate sale

Consideration should be given to contingencies, agreements with third parties or other issues that potentially hinder the sale and that require resolution (i.e. any operational requirements that must be met before using the asset) prior to disposal.

Example: If a backlog of orders needs to be fulfilled prior to sale, this criterion would not be satisfied

Active program to locate a buyer

Actions include initiating discussions with investment bankers to prepare a marketing plan and locate potential buyers in the marketplace

Example: Engaging 3rd party (e.g., a sales or real estate agent) to identify/approach potential buyers to submit bids

Sale is probable and expected to close within one year

The meaning of "probable" under ASC 450-20-20 should be used.

Example: General rule of thumb is 75% likelihood⁽²⁾

Actively being marketed for sale at a reasonable price

May exclude businesses marketed at excess of fair value or deep discount to the fair market value (e.g., in a "fire sale")

Example: Price in excess of fair value indicates criterion may not be satisfied

Changes to plans to sell are unlikely

Actions could include board resolutions, negotiations or meetings with bankers and/or potential buyers or a purchase and sale agreement. Consistent with the "probable" criteria discussed above.

Example: History of significant changes to sales and uncertainty about finding a buyer indicate criterion may not be met

(1) Routine or perfunctory approvals do not impact management's ability to commit to a plan to sell. Entities should work with their legal counsel to determine whether or not approvals constitute routine or perfunctory.

(2) If a sale is expected to occur after one year and all other criteria in ASC 360-10-45-9 are met, consider the guidance in ASC 360-10-45-11 for exceptions to the one year requirement for held for sale classification

Discops presentation and disclosure requirements



Balance sheet

Asset and liabilities of a discontinued operation should be separately disclosed on the face of the balance sheet and presented with separate line items



Income statement

Results of operation of the disposal group, less applicable income taxes, are shown as a separate component of income (i.e. separate line item).



Earnings per share

Separate basic and diluted earnings per share for discontinued operations should be presented on face of the income statement or disclosed in footnotes



Statement of cash flows

Option to present either (1) total operating, investing and financing cash flows for discontinued operations, or (2) in the financial statement footnotes, disclose depreciation, amortization, capital expenditures, and significant operating and investing noncash items related to discontinued operations



Discontinued operations footnote disclosure

Description of facts & circumstances and manner/timing of the disposal, disclosure of major balance sheet and income statement line items, disclosures of significant continuing involvement after the disposal



Other footnote disclosure

Other footnote disclosures will need to be revised to reflect the reclassifications from continuing operations into discontinued operations (i.e. remove amounts related to the discontinued operation) for the respective financial statement line items



Segment reporting

If the discontinued operation is a component of a reportable segment, the segment disclosures must be retrospectively adjusted to exclude the discontinued operation from the segment information disclosures for comparative purposes

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Common technical challenges & focus areas for insurance acquisitions & divestitures



Divestitures: Common challenges & focus areas



Basis of presentation

Is it a legal entity sale, a reinsurance transaction or a combination of both? Any portions of the business reflected in the historical financials that need to be evaluated for depooling? Deal perimeter F/S are the backbone of the deal and are typically the long pole in the tent. Buyer's audit requirements may result in GAAP carve-out F/S that differ from deal basis F/S.



Deal perimeter adjustments

Sellers often execute terminations and recaptures on existing reinsurance and move existing blocks into or out of the deal perimeter using loss portfolio transfers and novations. Reflecting these pro forma adjustments correctly in the deal perimeter financials will pave the way for a smooth Quality of Earnings & Diligence process.



Reinsurance invested asset structure

Coinsurance with funds withheld and modified coinsurance are used to retain control of the assets and protect the seller / cedant from credit risk of the buyer / reinsurer.

Understanding the P&L impact of the investments subject to the FWH and the DIG B-36 embedded derivative is critical to managing GAAP earnings. Some companies may achieve P&L offset.



Statutory capital

Sellers' statutory capital will be impacted by the amount of existing and transactional IMR created by the divestiture, so knowing which investments will generate the most IMR, what amount will be retained by the seller versus transferred to the buyer and how much the buyer may be able to admit are all key data points during the negotiation phase of a divestiture.



Discops / Held for Sale Treatment

Businesses divested via legal entity or asset sales may meet the discops and or held for sale treatment requiring changes to presentation on the face of the F/S and impact the GAAP G/L on sale.

Businesses divested via reinsurance will likely not meet HfS unless & until novation occurs, and will stay in continuing ops and be evaluated for insurance risk transfer for GAAP and Stat.



Non-GAAP measures

Sellers often use non-GAAP measures to show investors the full story of divestitures that include reinsurance components. Due care should be given as non-GAAP measures remain among the most frequently commented areas by the SEC.

Acquisitions: Common challenges & focus areas

Topic	Challenge
Purchase accounting framework	Determine whether the transaction is a business combination, asset acquisition or reinsurance.
Establish opening balance sheet at fair value	<ol style="list-style-type: none">1. Identify and separately measure customer relationships, distribution networks, and insurance license intangibles.2. Purchases involving funds-withheld or modified coinsurance require evaluation of embedded derivatives and day-1 gains/losses.3. Carrier acquisitions require fair value measurement of insurance liabilities and identification of value of business acquired (VOBA) during purchase accounting.
Integration of accounting policies	Align accounting policies across the combined group. This includes consideration of any alignment to the parent company reporting basis (i.e. IFRS, US GAAP, UK GAAP, etc.)
Reporting Requirements	<ol style="list-style-type: none">1. Public acquirers must prepare Article 11 pro formas for significant acquisitions and assess when target financials are required under Reg S-X Rule 3-05.2. Consideration of go forward reporting requirements for the acquired entity (i.e. go forward statutory accounting requirements, reporting requirements up to the parent company, etc)
Non-GAAP measures	Presentation of non-GAAP measures related to the acquisition in the combined financial statements
Data & systems integration	Harmonize actuarial, policy admin, and investment systems
Disclosure updates	Uplift parent company financial statements to meet insurance required disclosures (if applicable)

Definition of VOBA

ASC 944-805-30-1 specifies that an acquirer “shall recognize that fair value in components.”

The first component (the asset or liability for insurance or reinsurance contract) is measured in accordance with the acquirer’s accounting policies. ("PGAAP Liabilities")

The second component ("VOBA") is an intangible asset (or occasionally a liability) representing the difference between

1. the fair value of insurance and reinsurance assets acquired and liabilities assumed and
2. the first component. This intangible asset is generally referred to as Value of Business Acquired or VOBA.

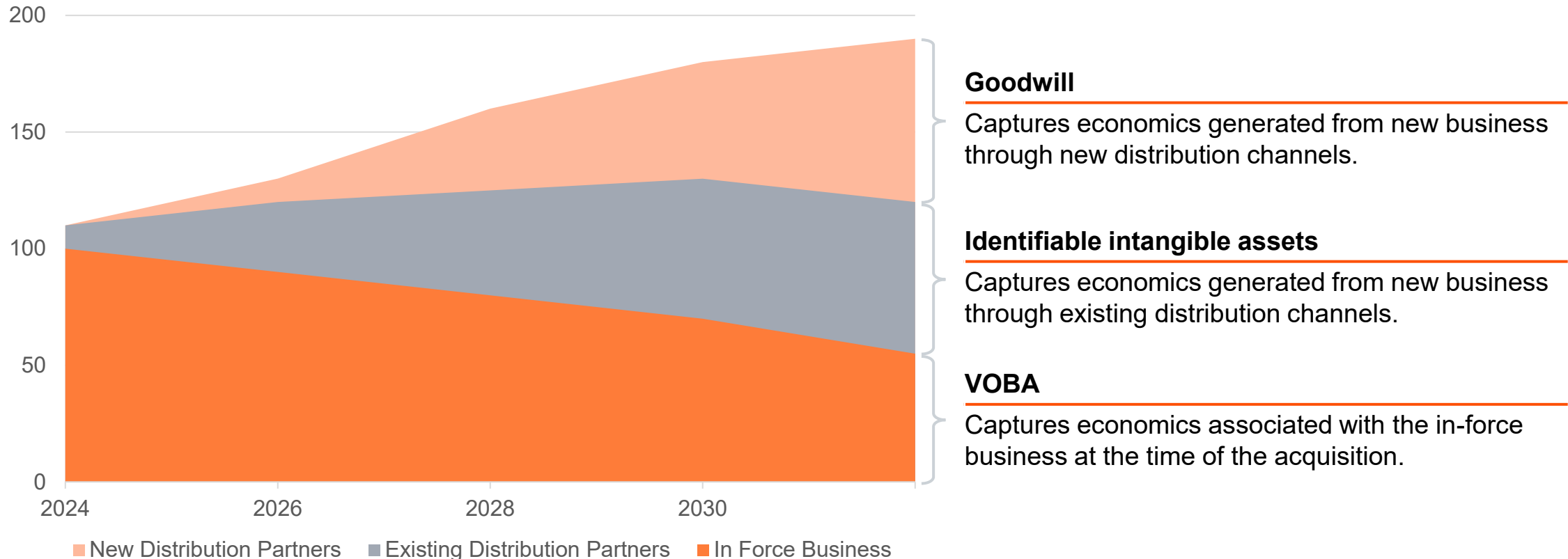
If VOBA is negative, it becomes a liability.



Allocation between goodwill and intangible assets

The overall distributable earnings forecast of the acquired business can be split between the VOBA, identifiable intangibles (e.g., distribution relationships, tradenames, licenses), and goodwill over the forecast period

Goodwill vs intangible asset allocation



Value Of Business Acquired (“VOBA”) – P&C

The VOBA asset is established representing the present value of future profits of the in-force business of the acquired insurer at the time of acquisition (i.e., a portion of the purchase price is consideration paid for existing insurance contracts).



Acquisition date treatment:

- Existing DAC and VOBA is eliminated and a new VOBA asset is calculated for all in-force business
- Short-duration contracts have two liabilities under historical GAAP:
 - **Loss reserves for claims** on both expired and in-force contracts
 - **Unearned premium reserves** on in-force contracts
- Purchase accounting needs to consider both components of insurance contract liabilities
- The acquirer measures at fair value the liabilities recognized for acquired insurance contracts. However, the acquirer shall recognize that fair value in components as follows:
 - Liabilities measured in accordance with the acquirer’s accounting policies for insurance contracts that it issues or holds
 - An intangible asset (or liability), for the difference between the fair value of the contractual insurance liabilities assumed and the amount described above



Post acquisition treatment:

- US GAAP requires subsequent measurement of VOBA on a basis consistent with the related insurance or reinsurance liability:
 - The insurance contract intangible asset (or other liability) relating to the **unearned premium component** it is typically presented and amortized consistent with the related unearned premium revenue even though there is no prescribed approach.
 - The insurance contract intangible asset (or other liability) associated with the **claim liability** is amortized over the claim settlement period, typically based on an actuarial projection of the claim settlement pattern.
- For most P&C insurance contracts, claim liabilities are not discounted under US GAAP, so amortizing VOBA like a discount using an interest method could be an appropriate method because a large component of the intangible asset (or other liability) includes the time value of money.

Value Of Business Acquired (“VOBA”) – L&A

The VOBA asset is established representing the present value of future profits of the in-force business of the acquired insurer at the time of acquisition (i.e., a portion of the purchase price is consideration paid for existing insurance contracts).

Acquisition date treatment:

- Existing DAC and VOBA is eliminated and a new VOBA asset is calculated for all in-force business.
- General methodologies and assumptions in calculating the initial VOBA asset should be consistent with those used for policyholder liabilities or reserves – rate used in discounting depends on method employed
- There are two methods through which VOBA can be calculated:
 - **Method 1:** Actuarial Appraisal Method. This method first computes an after-tax statutory value of in-force business (VIF). Adjustments are then made for GAAP and statutory reserve differences, GAAP and statutory invested asset differences, and deferred taxes.
 - **Method 2:** PGAAP Liability less FVL.
- Comparison of VOBA calculation methods:
 - **Method 1** (Actuarial Appraisal) is more commonly used for traditional business. **Method 2** (Fair Value Method) is generally simpler, but it requires that the FVL be available. Often this is not the case for insurance business.
 - Both should theoretically produce the same VOBA result, if assumptions are appropriately market based
 - Assumptions for calculating Fair Value of Liability should be market participant assumptions, not necessarily the acquiring company’s best estimate.

Post acquisition treatment:

- In practice, many amortize consistently with DAC depending on the type of insurance products acquired, either:
 - Over premiums for FAS 60 products,
 - Over EGPs for FAS 97 products,
 - FAS 120-type products using the earned and crediting rates,
 - Straightline amortization under LDTI
- Others find it appropriate to continue to amortize with interest as the VOBA represents discounted cash-flows post LDTI

4

Non-GAAP Adjustments



SEC Permissibility of Non-GAAP Adjustments

Definition of a Non-GAAP Measure

A non-GAAP financial measure (“NGM”) is a numerical measure of a registrant's historical or future financial performance, financial position or cash flows that:

1. Excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the statement of income, balance sheet or statement of cash flows (or equivalent statements) of the issuer
2. Includes amounts or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented.

The SEC Staff prohibits any registrant from making adjustments that, when taken together with any information accompanying the filing, contain a material misstatement or omission that would lead the NGM to be **misleading**^[1].

Per **C&DI 100.01**^[2], the SEC Staff will **generally** classify an adjustment as **misleading** if the expense meets **all three** of the following criterion:

- the expense is **normal**;
- the expense is **recurring**; **and**
- the expense is **cash operating** in nature.

When evaluating what is a **normal (operating) expense**, the staff considers the nature and effect of the non-GAAP adjustment and how it relates to the company's operations, revenue generating activities, business strategy, industry and regulatory environment.

When a company is evaluating whether a given expense qualifies as **recurring**, they should consider both whether a similar expense has occurred in the prior two years and whether a similar expense will occur in the following two years. Further, the SEC has clarified that an expense can be considered recurring, regardless of whether it happens at regular or irregular intervals.

[1] Source: 17 CFR “Regulation G,” 244.100(b)

[2] Source: SEC Compliance and Disclosure Interpretations – Non-GAAP Financial Measures, Question 100.01 (December 13, 2022)

NGMs Presentation and Disclosure Guidance

Presentation and disclosure guidance

Three pieces of authoritative guidance that must be considered when evaluating the disclosure requirements of NGMs. The level of disclosure generally depends on where the NGM is presented:

Any public disclosure

Regulation G

- Cannot be "misleading"
- Disclose the most directly comparable GAAP number
- Reconciliation from NGM to GAAP measure

Governs:

- Earnings calls
- Media interviews
- Investor and industry presentations
- Certain press releases (including earnings guidance)

Form 8-K earnings release

Item 2.02 of Form 8-K

- All of **Regulation G plus**
- NGM cannot have greater prominence than GAAP
- Description as to why management believes the non-GAAP measure is useful^[1]
- Description of how management uses the non-GAAP measure

Governs:

- Annual and quarterly earnings press releases

[1] Note: Does not need to be repeated if disclosed in Form 10-K.

Form S-1, Form 10-K and Form 10-Q

Item 10(e) of Regulation S-K

- All of **Regulation G and Item 2.02 plus**
- Must not exclude charges or liabilities that require cash settlement from **liquidity measure** (EBIT and EBITDA are exceptions)
- Must not adjust a NGM to eliminate or smooth items described as non-recurring, infrequent or unusual, when such a charge occurred in last 2 years or will likely recur in the next 2 years (including irregular intervals)
- Cannot include in financial statements or pro forma financial statements
- Cannot use inappropriate labels or unclear descriptions

Governs:

- Forms 10-K & 10-Q
- Registration & proxy statements

P&C Non-GAAP Measures: Adjusted Operating Earnings

		W. R. Berkley	Kinsale Capital	RLI	Palomar	Skyward Specialty	James River	SiriusPoint	Hippo Holdings	Hagerty	# of Peers
Category	Summary Line Item										
Investment, fair value, and other market driven volatility	Net Investment Income		X	X	X	X		X	X		6
	Net realized and unrealized (gains) losses on investments	X	X	X	X	X	X	X			7
	Other non-cash fair value adjustments								X		1
	Change in fair value of warrant liabilities									X	1
	Change in allowance for credit losses		X								1
	Foreign exchange (gains) losses							X			1
Asset & Liability recurring expenses	Stock-based compensation expense				X				X		2
	Interest expense		X			X		X	X		4
	Amortization of intangibles				X	X		X	X		4
Non-recurring expenses	Expenses associated with catastrophe bond, net of rebate				X						1
	Restructuring/Impairment charges				X		X			X	3
	Equity in unconsolidated investees			X							1
	Expenses associated with transaction					X			X		2
	Acquisition Costs								X		1
	Other Expense	X	X			X	X				4
	Loss and loss adjustment expenses – retroactive reinsurance							X			1
	Loss from discontinued operations							X			1
	Reevaluation gain on previously held equity method investments									X	1
	Gain/loss from asset disposals									X	1
Certain Unusual Items									X	1	

Area of focus for divestitures and acquisitions

L&A Non-GAAP Measures: Adjusted Operating Earnings

Life insurance companies often develop non-GAAP measures related to net income to provide stakeholders with insights into the underlying performance of the core business. For those insurers that have significant indexed business, there is significant volatility driven by accounting measurement that is not economic in nature but rather reflects the timing of reported results. As such, in addition to common adjustments excluding non-core or non-recurring operations, life insurers also remove the fair value impacts on FIA/RILA/IUL business.

Note that the income adjustments may differ among insurers, based on products offered and strategic goals, so it's important to review each metric alongside the insurers' financial statements or financial supplements.

Items adjusted from Net Income	Athene	AEL (2023)	F&G	Global Atlantic	Lincoln	Prudential	# of Peers
			Fixed indexed annuities, Fixed rate annuities, Single premium immediate annuities, Indexed universal life, Pension risk transfer	Fixed rate annuities, Fixed indexed annuities, Payout annuities, Interest sensitive life	Universal life, Variable annuities, Fixed annuities	Payout annuities, Indexed variable annuities, Fixed annuities, Universal life, Variable life, Term life	
Primary insurance products held		Fixed indexed annuities, Fixed rate annuities, Pension group annuities	Fixed indexed annuities, Fixed rate annuities, Single premium annuities				
Realized gain/losses on the sale of AFS securities	X	X	X	X	X	X	6
Change in fair value of derivative instruments	X	X	X	X	X	X	6
Change in FAS 133 embedded derivatives (FIA/RILA/IUL)	X	X	X	X	X	X	6
Change in fair value of reinsurance assets (DIG B36)	X	X	X	X	X	X	6
Mark to market on equity securities				X	X	X	3
Capital markets impacts in fair value of market risk benefits (MRB)	X	X	X	X	X	X	6
MRB benefit payments and attributed fees collected					X		1
Non-operating Change in Liability for Future Policy Benefits	X		X	X			3
Amortization of certain intangibles (may incl. impairment)			X		X		2
Non-Operating Change in Variable Funding Agreements	X						1
Non-Core and Uncontrollable Expenses Adjustment	X	X	X	X	X	X	6
Income Taxes Adjustments	X	X	X	X	X	X	6
Income loss from discontinued operations					X	X	2
Income (loss) from the initial adoption of new accounting standards, accounting policy changes and new regulations, including changes in tax law;					X		1
Income (loss) from reserve changes, net of related amortization, on business sold through reinsurance					X		1
Gains (losses) on modification or early extinguishment of debt					X		1

Area of focus for divestitures and acquisitions



Thank you

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